

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 PA-01 OES-07 ABF-01 /113 W
-----020712 061850Z /50

R 061648Z APR 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5349
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY PARIS
AMCONSUL OPORTO
AMCONSUL PONTA DELGADA

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BRUSSELS FOR USEEC
GENEVA FOR USMTN
PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: ECON, EFIN, PO
SUBJECT: ECONOMIC DEVELOPMENTS

SUMMARY: DELEGATIONS FROM THE IMF, WORLD BANK AND EC ARRIVED
IN LISBON LAST WEEK FOR DISCUSSIONS WITH THE GOP. LARGE PRICE
INCREASES ON BASIC SERVICES WENT INTO EFFECT APRIL 1.
CITIBANK HAS OPENED A REPRESENTATIVE OFFICE IN LISBON. THE
GOVERNMENT DECIDED FORMALLY TO END ITS INTERVENTION IN
TORRALTA. NORTHERN RUBBER INDUSTRY IS EXPERIENCING
DIFFICULTIES. THE ESCUDO/DOLLAR BUY RATE SHOWS LITTLE MOVEMENT.
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END SUMMARY.

1. GOP REOPENS NEGOTIATIONS WITH IMF: THE SOARES
GOVERNMENT HAS REOPENED CRITICAL NEGOTIATIONS WITH THE
IMF. HEARTENED BY THE RECENT SYMPATHETIC NEW YORK TIMES
EDITORIAL AND BY SIMILAR EXPRESSIONS OF KEY MEMBERS
IN THE US I.P.U. DELEGATION, THE GOP MAY BE HOPING THAT

INTERANTIONAL OPINION WILL COMPEL THE IMF TO SOFTEN ITS DEMANDS ON THE GOP. THESE HOPES DO NOT SUFFICE TO REMOVE DIFFICULT IMF NEGOTIATIONS. THE APRIL 1 PRICE INCREASES FOR BASIC SERVICES MAKE CLEAR THAT THE MUCH-PROMISED AUSTERITY IS A REALITY.

2. WORLD BANK VISIT TO PORTUGAL- FINANCING FOR LISBON WATER PROJECT: AN IBRD TEAM HEADED BY REGIONAL VP FOR EUROPE, MIDEAST AND NORTH AFRICA, MUNIR BENJENK, VISITED LISBON WEEK OF MARCH 20. IBRD REPORTEDLY EXPRESSED ITS WILLINGNESS TO GRANT \$120 MILLION IN FINANCING FOR PORTUGUESE PROJECTS IN IRRIGATION, FERTILIZER AND TRANSPORTATION SECTORS. DURING THE VISIT, WORK BANK FORMALLY ANNOUNCED A 40 MILLION DOLLAR LOAN TO EXTEND LISBON'S WATER SUPPLY NETWORK (77 LISBON 9705 AND 9022). CREDIT IS REPORTEDLY FOR 15 YEARS AND CARRIES AN INTEREST RATE OF 7.45 PERCENT.

3. EC VICE PRESIDENT ENCOURAGES GOP: DURING HIS LISBON VISIT LAST WEEK, EC VICE PRESIDENT LORENZO NATALI ASSURED THE GOP OF A FAVORABLE RESPONSE BY LATE APRIL ON ITS MEMBERSHIP APPLICATION TO THE EC. HE REVEALED THAT FORMAL NEGOTIATIONS ON ACCESSION WILL COMMENCE IN OCTOBER, 1978. DURING HIS STAY, NATALI MET WITH PRIME MINISTER SOARES, PRESIDENT EANES AND MEMBERS OF VIRTUALLY ALL PARTIES REPRESENTED IN THE LEGISLATIVE

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ASSEMBLY. HE INDICATED THAT THE EC, THROUGH THE EUROPEAN INVESTMENT BANK, WOULD PROVIDE SPECIAL FINANCIAL ASSISTANCE TO MODERNIZE PORTUGAL'S ECONOMY.

4. PRICE INCREASES: AS PART OF GOP'S AUSTERITY MEASURES, PRICE OF GAS, WATER, ELECTRICITY AND PUBLIC TRANSPORTATION INCREASED ON APRIL 1. PRICE OF CITY GAS ROSE 43 PERCENT, BUTANE AND PROPANE GAS FROM 49 TO 55 PERCENT, DEPENDING ON WHETHER IT IS BOTTLED OR PIPED; WATER FROM 20 TO 29 PERCENT; ELECTRICITY 50 PERCENT; BUS AND STREETCAR FARES FROM 47 TO 60 PERCENT; AND TRAINS FROM 32 TO 50 PERCENT. ALTHOUGH THE PUBLIC HAD EXPECTED THESE PRICES TO RISE, THE SIZE OF THE INCREASES WAS A REAL SHOCK.

5. CITIBANK OPENS LISBON OFFICE: CITIBANK HAS BECOME THE FIRST FOREIGN BANK TO ESTABLISH A REPRESENTATIVE OFFICE IN PORTUGAL. ALTHOUGH LEGISLATION PRECLUDES THE ESTABLISHMENT OF NEW BANKS IN PORTUGAL, IT PERMITS REPRESENTATIVE OFFICES (DECREE LAW 745/76, OCTOBER 18, 1976). CITIBANK APPLICATION, SUBMITTED IN EARLY 1977, OBTAINED APPROVAL IN NOVEMBER 1977; OFFICE WAS FORMALLY INAUGURATED MARCH 29, 1978. OTHER FOREIGN BANKS ARE

LIKELY TO FOLLOW CITIBANK EXAMPLE.

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6. GOP DECIDES TO END TORRALTA INTERVENTION: COUNCIL OF MINISTERS ON MARCH 22 DECIDED TO TERMINATE GOVERNMENT INTERVENTION IN TORRALTA, PORTUGAL'S LARGEST TOURISM-REAL ESTATE COMPANY. ESTABLISHED IN 1965, FIRM GREW RAPIDLY PRIOR TO THE REVOLUTION. SINCE THEN, IT HAS BEEN IN CONTINUOUS DIFFICULTY. AS PART OF ITS DECISION TO RETURN TORRALTA TO ORIGINAL OWNERS, GOVERNMENT APPROVED A 1.1 MILLION DOLLAR CREDIT TO THE COMPANY. GOP HAS ANNOUNCED ALSO ITS INTENT TO TERMINATE ALL INTERVENTIONS IN TOURISM SECTOR BY JUNE 30, 1978.

7. RUBBER INDUSTRY INFLEXIBLE: SEVERAL OPORTO RUBBER INDUSTRIALISTS MET RECENTLY TO CONSIDER THEIR DIFFICULTY IN OBTAINING IMPORT LICENSES FOR PRIMARY MATERIALS. THEY CRITICIZED GOP FOR ITS RESTRICTIVE IMPORT LICENSE POLICIES

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AND DEPLORED DRASTIC REDUCTION IN DOMESTIC BANK CREDITS FOR IMPORTS. THEY PREDICTED AN IMMINENT PARALYZATION OF RUBBER INDUSTRY, THREATENING 11,000 JOBS. INDUSTRY REPRESENTATIVES ESTIMATE THAT 45 PERCENT OF RUBBER PRODUCTION IS EXPORTED, EITHER DIRECTLY OR IN SUCH OTHER ITEMS AS SHOES. APPROXIMATELY 30 PERCENT OF SHOE EXPORTS INCROPORATE SOLES PRODUCED BY RUBBER INDUSTRY.

8. ESCUDO/DOLLAR BUY RATE: ESCUDO/DOLLAR BUY RATE, WHICH STOOD AT 40.685 ON MARCH 20, CLOSED ON WEDNESDAY, APRIL 5, AT 41.005.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON02593
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780149-0436
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780486/aaaacval.tel
Line Count: 184
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 89915cb5-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3056344
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS SUMMARY: DELEGATIONS FROM THE IMF, WORLD BANK AND EC ARRIVED IN LISBON LAST WEEK FOR DISCUSSIONS WITH THE GOP.
TAGS: ECON, EFIN, PO
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/89915cb5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014